Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

ECONOMICS **2281/21**

Paper 2 Structured Questions **May/June 2015**

2 hours 15 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A

Answer Question 1.

Section B

Answer any **three** questions.

The number of marks is given in brackets [ ] at the end of each question or part question.

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CAMBRIDGE
International Examinations

Section A

Answer this question.

1 What does the future hold for Sweden?

Sweden is a highly developed European country which enjoys one of the highest standards of living in the world. In 2012, its citizens enjoyed an average income of US$49 000. The country's labour force of five million is highly skilled. About 70% of schoolchildren go on to university. Over the years, investment has been high in Sweden and as a result there is a high value of capital goods for each worker to use. In 2012, however, its economic growth rate slowed. The Swedish Government was hoping that its decision to raise the retirement age to 67 would increase the country's economic growth rate.

Sweden exports half of its output. It exports a range of products including cars and capital goods. Among the country's imports are petrol, cars and iron. Table 1 shows the balance of the current account of its balance of payments over the period 2008–2013.

Table 1: Sweden's current account balance, 2008–2013

Year	Current account balance	
	US$ billion	as a % of Gross Domestic Product (GDP)
2008	+38	6.9
2009	+31	7.0
2010	+31	6.8
2011	+32	6.4
2012	+39	7.1
2013	+40	7.2

A country's trade position is influenced by its inflation rate. Indeed, a fall in a country's inflation rate can increase the international competitiveness of its products. The Swedish Government aims to keep the annual inflation rate at 2% or below. If there is a risk that the inflation rate will exceed the 2% target, the Swedish Central Bank will raise the interest rate. Such a change will be likely to influence consumer expenditure, investment and the exchange rate. In recent years, Sweden's inflation rate has remained low, averaging 1.9% between 2008 and 2013.

The low inflation rate provides certainty for Swedish firms. The best known Swedish firm is probably IKEA, which produces furniture and household accessories. In 2012, it reduced its prices which, as on previous occasions, resulted in a rise in its revenue. In 2013, its owners stated that their main goal was to increase the size of the firm by opening new stores throughout the world, including in its expanding markets in China and Russia.

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(a) Using information from the extract, identify **two** reasons why Sweden is considered to be a highly developed country. [2]

(b) Explain how a rise in the retirement age may increase a country's economic growth rate. [4]

(c) Using information in Table 1, describe what happened to:

(i) Sweden's current account position over the period shown [2]

(ii) Sweden's GDP between 2009 and 2010. [2]

(d) Explain why a country may both export and import cars. [2]

(e) Using information from the extract, analyse how a rise in the rate of interest can reduce inflation. [5]

(f) Discuss whether a fall in a country's inflation rate will increase the international competitiveness of its products. [5]

(g) Using information from the extract, explain whether demand for IKEA's products is price elastic or price inelastic. [2]

(h) Discuss whether growth is the main goal of most firms. [6]

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[Turn over

Section B

Answer any **three** questions from this section.

2 In 2013, an earthquake on the Iran/Pakistan border destroyed many factories and homes. Some officials wanted the Governments to rebuild the factories and homes, even though there would be an opportunity cost. Others suggested that some people should be encouraged to emigrate.

(a) Define 'opportunity cost'. [2]

(b) Explain why the economic problem can never be solved. [4]

(c) Using a production possibility curve diagram, analyse the effect of the destruction of some of its resources on an economy. [6]

(d) Discuss whether a country will benefit from the emigration of some of its people. [8]

3 In 2013, the market price of houses rose in China but fell in Greece. The Chinese Government tried to reduce the rise in house prices by discouraging borrowing. In Greece, the equilibrium price of houses fell, largely because of a decrease in income. In some countries, governments give subsidies to housebuilders to influence the market for houses.

(a) Define 'equilibrium price'. [2]

(b) Explain **two** reasons why borrowing may decrease. [4]

(c) Using a demand and supply diagram, analyse why a fall in incomes may reduce the market price of houses. [6]

(d) Discuss whether the building of houses should be subsidised. [8]

4 Trade union membership is decreasing in some countries, but it is increasing in China. Industrial action by workers is becoming more common in China, with workers seeking higher wages. Recently there was a strike at a car factory in South China, owned by a Japanese multinational company.

(a) Define 'multinational company'. [2]

(b) Explain why governments may discourage strikes. [4]

(c) Analyse **three** reasons why trade union membership may decrease in a country. [6]

(d) Discuss whether a rise in the wages a firm pays would reduce its profits. [8]

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5 In January 2013, the Portuguese Government increased tax rates. Three months later it cut its spending on health care and education. Between these two periods, unemployment in Portugal rose.

(a) What is meant by 'tax'? [2]

(b) Explain **two** reasons why an increase in unemployment may reduce tax revenue. [4]

(c) Analyse **two** reasons why unemployment may increase. [6]

(d) Discuss whether a reduction in government spending on education will reduce living standards. [8]

6 About 30% of Nigeria's labour force is employed in agriculture but the country still spends more than US$12 billion a year importing food. The Nigerian Government is seeking to reduce the imports of food. With a high birth rate and many small farms, this may be difficult to achieve.

(a) Define 'birth rate'. [2]

(b) Explain **two** causes of a high birth rate. [4]

(c) Analyse how an increase in the size of farms may affect the cost of producing food. [6]

(d) Discuss whether a reduction in its imports will always benefit an economy. [8]

7 In 2013, the Singapore Government was concerned that its economy might experience a recession. It was introducing a range of supply-side policy measures to increase productivity, avoid a recession and achieve its other aims for the economy. It was also trying to reduce the international value of the Singapore dollar.

(a) Define 'recession'. [2]

(b) Explain **two** reasons why an economy may have a high foreign exchange rate. [4]

(c) Analyse how supply-side policy measures could increase productivity. [6]

(d) Discuss whether a fall in the international value of its currency will always benefit an economy. [8]

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